

Message Text

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ACTION TRSE-00

INFO OCT-01 EA-11 ISO-00 NEA-14 IO-14 H-03 L-03 PA-04

PRS-01 USIA-15 SP-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-02 SS-20 STR-08 OMB-01 CEA-02 CIAE-00 COME-00

FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01

DRC-01 /180 W

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R 100851Z JUL 74

FM AMEMBASSY MANILA

TO AMEMBASSY SEOUL

INFO SECSTATE WASHDC 5097

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USADB

DEPT PASS TREASURY FOR FINKEL

E.O. 11652: DECLASS 12/31/77

TAGS: EAID, EFIN, BEXP, KS

SUBJ: GOOI RI WATER TREATMENT PLANT SEOUL

REF: SEOUL 4370

1. IT MIGHT BE WORTH NOTING THAT TRANS-ASIA, U.S. CONSULTANT FOR SEOUL WATER SUPPLY PROJECT, HAD INITIALLY RECOMMENDED TURNKEY BID AS MOST APPROPRIATE FOR WATER TREATMENT PLANT PROJECT OF THIS TYPE, BUT KOREANS REQUESTED AND ADB SUBSEQUENTLY ACQUIESCED IN ITEM-BY ITEM CONSIDERATION. ALSO, WHEN CONSULTANT GOT ON BOARD, CIVIL WORKS CONSTRUCTION HAD ALREADY BEEN INITIATED TO ACCOMMODATE DISTINCTIVE DESIGN OF WHASHIN (JAPANESE) FILTERS. DESPITE FACT THAT CTE (FRENCH FIRM) WAS LOWEST BIDDER ON FILTER COMPONENT, KOREANS INSISTED

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UPON AWARDDING FILTERS TO WHASHIN.

2. ON MARCH 23 DECISION WAS REACHED IN SEOUL BETWEEN ADB AND KOREANS TO (1) AUTHORIZE SEOUL CITY WATER BUREAU (SCWB) TO PURCHASE FILTERS WITH THEIR OWN FUNDS AND (2) TO ALLOCATE AWARDS FOR OTHER COMPONENTS OF WATER TREATMENT PLANT TO U.S. FIRMS GETZ (FLOCCULATOR) AND HUNT (SLUDGE COLLECTOR) AND CTE (CHEMICAL FEEDER) WITH UNDERSTANDING THAT JOINT PERFORMANCE GUARANTEE WAS REQUIRED BEFORE APRIL 30. WHEN THIS AGREEMENT WAS REACHED, USADB ASSUMED PROBLEM HAD BEEN RESOLVED AND THAT BANK WAS ON TOP OF SITUATION. CTE HOWEVER REFUSED TO SIGN JOINT GUARANTEE, OSTENSIBLY BECAUSE OF MIXED-BAG NATURE OF EQUIPMENT PACKAGE, BUT ACTUALLY AS PROTEST AGAINST DECISION TO REMOVE FILTERS FROM BIDDING.

3. AT THIS JUNCTURE, SCWB'S OBVIOUS NEXT STEP WAS TO PUT CTE IN DEFAULT AND REQUEST BANK TO INVALIDATE CTE BID. FYI: TRANS-ASIA INFORMED US THEY WROTE TO SCWB IN APRIL SUGGESTING THAT CTE BE INFORMED THAT SCWB WOULD ACCEPT GETZ AND HUNT BIDS AND THROW OUT CTE BID IF IT REFUSED TO SIGN THE JOINT GUARANTEE. THERE WAS NO RESPONSE FROM SCWB. END FYI.

4. WHEN NO ACTION WAS TAKEN BY EXECUTING AGENCY BEFORE APRIL 30, BID VALIDITY OF AMERICAN SUPPLIERS EXPIRED WHILE CTE KEPT ITS BID OPEN. BANK WAS NOTIFIED IN MID-MAY THAT SCWB HAD CANCELLED ALL BIDS (WHICH IT WAS NOT AUTHORIZED TO DO WITHOUT BANK'S CONCURRENCE). THIS RESULTED IN BANK CALL FOR HIGH-LEVEL MEETING IN EARLY JUNE IN MANILA BETWEEN BANK, OSROK, EPB, SCWB AND TRANS-ASIA AT WHICH TIME DECISION WAS MADE TO REVALIDATE ORIGINAL BIDS WITH OPPORTUNITY TO ADJUST PRICES. GETZ DECIDED NOT TO RESPOND, WHILE HUNT ENTERED BID FOR SLUDGE COLLECTOR AT SUBSTANTIALLY INCREASED PRICE (120 PERCENT) OVER PREVIOUS BID. HUNT ALSO BID ON CHEMICAL FEEDER AT RELATIVELY REASONABLE PRICE. CTE MAINTAINED ORIGINAL PRICES.

5. USADB UNDERSTANDS THAT CTE HAS NOW ADVISED BOTH BANK AND SCWB THAT IT CANNOT PARTICIPATE UNLESS IT RECEIVES PART OF FILTERS, WHICH IS NO LONGER NEGOTIABLE ITEM. IT THUS LIMITED OFFICIAL USE

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APPEARS THAT HUNT MAY BE ASKED TO NEGOTIATE WITH SCWB ON PACKAGE BID FOR BOTH CHEMICAL FEEDER AND SLUDGE COLLECTOR. (TRANS-ASIA INDICATES HUNT BID ON SLUDGE COLLECTOR DOES NOT APPEAR REPRESENTATIVE OF CURRENT U.S. PRICES.) SCWB WOULD THEN HAVE TO GO OUT FOR BIDS AGAIN ON FLOCCULATOR.

6. USADB NOW AWARE THAT BANK WAS NOT FOLLOWING SITUATION

CLOSELY ENOUGH DURING CRUCIAL PERIOD LAST APRIL AND HAS
CALLED BANK TO TASK IN THIS REGARD. JUNE DECISION TO
REVALIDATE ALL BIDS MAY HAVE REFLECTED BANK'S CONCERN THAT
FRENCH WOULD BE ON FIRM GROUND RE JOINT PERFORMANCE GUAR-
ANTEE IF CASE WERE TO GO TO INTERNATIONAL ARBITRATION.
IN OUR VIEW, KOREANS INVITED DIFFICULTIES FROM BEGINNING
BY THEIR HANDLING OF THIS PROJECT, AND IT WAS UNFORTUNATE
THAT POTENTIAL U.S. SUPPLIERS WERE CAUGHT UP IN MIDDLE
OF IT.
SULLIVAN

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